

**CITY OF AKUTAN, ALASKA**

Basic Financial Statements, Required  
Supplementary Information, Additional Supplementary  
Information and Compliance Report

Year Ended June 30, 2016

**CITY OF AKUTAN, ALASKA**

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Supplementary Information, Additional Supplementary  
Information and Compliance Report

Year Ended June 30, 2016

# CITY OF AKUTAN, ALASKA

## Table of Contents

	<u>Exhibit</u>	<u>Page</u>
<b><u>Independent Auditor's Report</u></b>		1-3
<b><u>Basic Financial Statements</u></b>		
Government-Wide Financial Statements:		
Statement of Net Position	A-1	4
Statement of Activities	A-2	5
Fund Financial Statements:		
Governmental Funds:		
Balance Sheet	B-1	6
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	B-2	7
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)	B-3	8
Reconciliation of the Change in Fund Balances of Governmental Funds to Statement of Activities	B-4	9
Electric Enterprise Fund:		
Statement of Net Position	C-1	10
Statement of Revenues, Expenses and Changes in Net Position	C-2	11
Statement of Cash Flows	C-3	12
Notes to Basic Financial Statements		13-38
<b><u>Required Supplementary Information</u></b>		
Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:		
General Fund	D-1	39
Fuel/Gas Special Revenue Fund	D-2	40
Geothermal Development Special Revenue Fund	D-3	41
Schedule of the City's Proportionate Share of the Net Pension Liability – Public Employees' Retirement System	E-1	42
Schedule of the City's Contributions – Public Employees' Retirement System	E-2	43

## CITY OF AKUTAN, ALASKA

### Table of Contents, Continued

	<u>Exhibit</u>	<u>Page</u>
<b><u>Additional Supplementary Information</u></b>		
Major Governmental Funds:		
General Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	F-1	44-50
Fuel/Gas Special Reserve Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance (Deficit) – Budget and Actual	F-2	51
Geothermal Development Special Revenue Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	F-3	52
Duplex New Construction Capital Project Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance	F-4	53
Permanent Special Revenue Fund:		
Schedule of Revenues, Expenditures and Changes in Fund Balance	F-5	54
Other Governmental Funds:		
Combining Balance Sheet	G-1	55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	G-2	56
Schedule of State Financial Assistance	H-1	57
Notes to the Schedule of State Financial Assistance		58
<b><u>Compliance Reports</u></b>		
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		59-60
Report on Compliance for Each Major State Program and on Internal Control over Compliance Required by the <i>State of Alaska Audit Guidance and Compliance Supplement for State Single Audits</i>		61-63
Schedule of Findings and Questioned Costs		64-69
Corrective Action Plan		70

## **Independent Auditor's Report**

Members of the City Council  
City of Akutan, Alaska  
Akutan, Alaska

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, Alaska, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Akutan's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, Alaska, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, Schedule of the City's Proportionate Share of the Net Pension Liability – Public Employees' Retirement System, and Schedule of the City's Contributions – Public Employees' Retirement System on pages 42-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Akutan's basic financial statements. The information listed in the table of contents as "Additional Supplementary Information", which includes Major Governmental Funds: Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund, Permanent Fund Special Revenue Fund, Fuel/Gas Special Revenue Fund, Geothermal Special Revenue Fund, and Duplex New Construction Capital Project Fund; Other Governmental Funds: Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance, and the Schedule of State Financial Assistance, as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Additional Supplementary Information listed above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Additional Supplementary Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2017, on our consideration of the City of Akutan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Akutan's internal control over financial reporting and compliance.

*Altman, Rogers & Co.*

Anchorage, Alaska  
September 22, 2017

## CITY OF AKUTAN

## Statement of Net Position

June 30, 2016

<u>Assets and Deferred Outflows of Resources</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 4,709,106	9,060	4,718,166
Receivables, net of allowance for doubtful allowance:			
Akutan Traditional Council	62,564	-	62,564
Fish taxes	372,534	-	372,534
Accounts	19,545	7,200	26,745
Grants	467,810	-	467,810
Other	14,118	-	14,118
Prepaid items	80,911	-	80,911
Fuel inventory	237,172	9,519	246,691
Investment in Southwest Governments, LLC	555,444	-	555,444
Capital assets not being depreciated - land and construction in progress	1,916,077	-	1,916,077
Other capital assets, net of accumulated depreciation	8,761,512	3,785,679	12,547,191
Total assets	<u>17,196,793</u>	<u>3,811,458</u>	<u>21,008,251</u>
Deferred outflows of resources -			
Pension deferrals	<u>589,205</u>	<u>-</u>	<u>589,205</u>
Total assets and deferred outflows of resources	<u>\$ 17,785,998</u>	<u>3,811,458</u>	<u>21,597,456</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>			
Liabilities:			
Accounts payable	365,638	2,042	367,680
Accrued payroll and benefits	202,862	1,814	204,676
Prepaid rent	6,000	-	6,000
Noncurrent liabilities:			
Due within one year - accrued leave	66,620	3,253	69,873
Due in more than one year - net pension liability	<u>1,952,237</u>	<u>-</u>	<u>1,952,237</u>
Total liabilities	<u>2,593,357</u>	<u>7,109</u>	<u>2,600,466</u>
Deferred inflows of resources -			
Pension deferrals	<u>34,563</u>	<u>-</u>	<u>34,563</u>
Net position:			
Net investment in capital assets	10,677,589	3,785,679	14,463,268
Unrestricted	<u>4,480,489</u>	<u>18,670</u>	<u>4,499,159</u>
Total net position	<u>15,158,078</u>	<u>3,804,349</u>	<u>18,962,427</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,785,998</u>	<u>3,811,458</u>	<u>21,597,456</u>

See accompanying notes to basic financial statements.



## CITY OF AKUTAN

Statement of Activities  
Year Ended June 30, 2016

Activities	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- type Activities	Total
Governmental:							
General government	\$ 1,658,125	15,911	45,372	252,453	(1,344,389)	-	(1,344,389)
Public safety	145,615	-	4,488	-	(141,127)	-	(141,127)
Community services	470,392	120,473	7,755	-	(342,164)	-	(342,164)
Public works	1,084,367	54,479	516,283	-	(513,605)	-	(513,605)
Port authority	935,995	516	18,418	18,320	(898,741)	-	(898,741)
Total governmental activities	4,294,494	191,379	592,316	270,773	(3,240,026)	-	(3,240,026)
Business-type activities- electric	711,763	163,273	-	-	-	(548,490)	(548,490)
Total	\$ 5,006,257	354,652	592,316	270,773	(3,240,026)	(548,490)	(3,788,516)
General revenues:							
Fish taxes					\$ 2,098,763	-	2,098,763
Grants and entitlements not restricted to a specific purpose					1,256,306	-	1,256,306
Investment income					100,301	-	100,301
Insurance proceeds					72,762	-	72,762
Other					37,714	-	37,714
Total general revenues					3,565,846	-	3,565,846
Net transfers					(320,865)	320,865	-
Total general revenues and transfers					3,244,981	320,865	3,565,846
Change in net position					4,955	(227,625)	(222,670)
Net position, beginning of year					15,153,123	4,031,974	19,185,097
Net position, end of year					\$ 15,158,078	3,804,349	18,962,427

See accompanying notes to basic financial statements.

## CITY OF AKUTAN

Governmental Funds  
Balance Sheet  
June 30, 2016

	Major Funds						
		Special Revenue			Duplex Construction Capital Project Fund	Other Governmental Funds	Total Govern- mental Funds
Assets	General	Permanent	Fuel/Gas	Geothermal Development			
Cash and investments	\$ 2,631,489	1,404,757	-	420,347	15,503	237,010	4,709,106
Receivables:							
Fish taxes	372,534	-	-	-	-	-	372,534
Accounts	9,680	-	29,865	-	-	-	39,545
Grants	-	-	-	147,627	320,183	-	467,810
Other	31,939	-	-	-	-	9,539	41,478
Allowance for doubtful accounts	(27,360)	-	(20,000)	-	-	-	(47,360)
Prepaid items	80,911	-	-	-	-	-	80,911
Fuel inventory	96,442	-	140,730	-	-	-	237,172
Due from other funds	107,870	-	-	-	-	-	107,870
Long-term receivable - Akutan Traditional Council	62,564	-	-	-	-	-	62,564
Investment in Southwest Governments, LLC	555,444	-	-	-	-	-	555,444
Total assets	<u>\$ 3,921,513</u>	<u>1,404,757</u>	<u>150,595</u>	<u>567,974</u>	<u>335,686</u>	<u>246,549</u>	<u>6,627,074</u>
Liabilities, Deferred inflows of Resources and Fund Balances (Deficit)							
Liabilities:							
Accounts payable	34,218	699	118,432	54,351	157,905	33	365,638
Accrued payroll and benefits	193,338	-	1,889	-	4,135	3,500	202,862
Prepaid rent	6,000	-	-	-	-	-	6,000
Due to other funds	-	7,777	94,473	-	-	5,620	107,870
Total liabilities	<u>233,556</u>	<u>8,476</u>	<u>214,794</u>	<u>54,351</u>	<u>162,040</u>	<u>9,153</u>	<u>682,370</u>
Deferred inflows of resources:							
Southwest Governments, LLC	82,901	-	-	-	-	-	82,901
Unavailable revenue	-	-	3,960	-	-	-	3,960
Total deferred inflows of resources	<u>82,901</u>	<u>-</u>	<u>3,960</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,861</u>
Total liabilities and deferred inflows of resources	<u>316,457</u>	<u>8,476</u>	<u>218,754</u>	<u>54,351</u>	<u>162,040</u>	<u>9,153</u>	<u>769,231</u>
Fund balances (deficit):							
Nonspendable	795,361	-	140,730	-	-	-	936,091
Committed	-	1,396,281	-	513,623	173,646	237,396	2,320,946
Unassigned (deficit)	2,809,695	-	(208,889)	-	-	-	2,600,806
Total fund balances (deficit)	<u>3,605,056</u>	<u>1,396,281</u>	<u>(68,159)</u>	<u>513,623</u>	<u>173,646</u>	<u>237,396</u>	<u>5,857,843</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,921,513</u>	<u>1,404,757</u>	<u>150,595</u>	<u>567,974</u>	<u>335,686</u>	<u>246,549</u>	<u>6,627,074</u>

## CITY OF AKUTAN

Reconciliation of Governmental Funds Balance Sheet  
to Statement of Net position  
June 30, 2016

Total fund balances for governmental funds \$ 5,857,843

Total net position reported for governmental activities in the  
Statement of Net Position is different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. These  
assets, net of accumulated depreciation consist of:

Land and improvements	\$	793,886	
Construction in progress		1,122,191	
Buildings and improvements		5,726,848	
Equipment		1,075,692	
Water and sewer lines		625,000	
Infrastructure		6,471,378	
Accumulated depreciation		<u>(5,137,406)</u>	
Total capital assets			10,677,589

Long-term assets are not available to pay for current period  
expenditures and therefore are deferred in the funds.

Unrealized gain on a long-term asset		82,901	
Unavailable revenue		<u>3,960</u>	
			86,861

Long-term liabilities, including note payable, accrued leave,  
and accrued interest are not due and payable in the  
current period and therefore are not reported as fund liabilities.

Accrued leave		(66,620)	
City's proportionate share of the collective net pension liability - PERS		<u>(1,952,237)</u>	
			(2,018,857)

Deferred outflows and inflows of resources related to  
pensions are the result of timing differences in the  
actuarial report:

Deferred outflows of resources - pension deferrals		589,205	
Deferred inflows of resources - pension deferrals		<u>(34,563)</u>	
			<u>554,642</u>

Total net position of governmental activities \$ 15,158,078

See accompanying notes to basic financial statements.

## CITY OF AKUTAN

Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)  
Year Ended June 30, 2016

	Major Funds						
	Special Revenue				Duplex Construction Capital Project Fund	Other Governmental Funds	Total Governmental Funds
	General	Permanent	Fuel/Gas	Geothermal Development			
Revenues:							
Intergovernmental:							
Federal sources	\$ -	-	-	251,895	-	-	251,895
State of Alaska	1,303,311	-	-	253,961	252,453	18,320	1,828,045
Local:							
Fish taxes	2,098,763	-	-	-	-	-	2,098,763
Charges for services	-	-	110,284	-	-	-	110,284
Investment income	38,599	51,609	-	74	-	642	90,924
Other revenues	134,907	-	-	-	-	-	134,907
Total revenues	3,575,580	51,609	110,284	505,930	252,453	18,962	4,514,818
Expenditures:							
Current:							
General government	1,283,709	5,032	-	-	-	-	1,288,741
Public safety	89,810	-	-	-	-	-	89,810
Community services	161,990	-	141,310	-	-	-	303,300
Public works	289,385	-	-	547,789	-	103,000	940,174
Port authority	618,665	-	-	-	-	-	618,665
Capital outlay	-	-	-	-	267,960	662,513	930,473
Total expenditures	2,443,559	5,032	141,310	547,789	267,960	765,513	4,171,163
Excess (deficiency) of revenues over (under) expenditures	1,132,021	46,577	(31,026)	(41,859)	(15,507)	(746,551)	343,655
Other financing sources (uses):							
Insurance proceeds	-	-	-	-	-	72,762	72,762
Transfers in	388	-	-	-	15,507	544,925	560,820
Transfers out	(881,297)	-	-	-	-	(388)	(881,685)
Net other financing sources (uses)	(880,909)	-	-	-	15,507	617,299	(248,103)
Net change in fund balances	251,112	46,577	(31,026)	(41,859)	-	(129,252)	95,552
Beginning fund balances (deficit)	3,353,944	1,349,704	(37,133)	555,482	173,646	366,648	5,762,291
Ending fund balances (deficit)	\$ 3,605,056	1,396,281	(68,159)	513,623	173,646	237,396	5,857,843

## CITY OF AKUTAN

Reconciliation of the Change in Fund Balances of Governmental Funds  
to Statement of Activities  
Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ 95,552

The change in net position reported for governmental activities in the  
Statement of Activities is different because:

Governmental funds report capital outlays as expenditures. However  
in the Statement of Activities the cost of those assets  
is allocate over their estimated useful lives.

Capital asset additions	941,651	
Depreciation expense	(398,936)	
	542,715	542,715

Certain revenues in the statement of activities do not provide current  
financial resources and are reported as unearned or unavailable revenue  
in the funds. The following are increases (decreases) in unavailable  
revenues:

City's investment in Southwest Governments, LLC.	9,377	
Fuel and Gas Special Revenue accounts receivables	(16,098)	
	(6,721)	(6,721)

Some expenses reported in the Statement of Activities do not require  
the use of current financial resources and, therefore, are not reported  
as expenditures in governmental funds:

Compensated absences, net change	(8,705)	
Increase in the City's share of the unfunded pension liability	(1,069,960)	
	(1,078,665)	(1,078,665)

Changes in deferred inflows and outflows of resources are the  
results of timing differences in the actuarial report and adjustments  
to reflect the employer and non-employer contributions based on  
the measurement date of the net pension liability

452,074

Change in net position of governmental activities \$ 4,955

See accompanying notes to basic financial statements.

## CITY OF AKUTAN

Electric Enterprise Fund  
Statement of Net Position  
June 30, 2016

Assets

## Current assets:

Cash and cash equivalents	\$ 9,060
Accounts receivable	7,200
Fuel inventory	9,519
Total current assets	<u>25,779</u>

## Noncurrent assets:

## Capital assets:

Buildings and improvements	319,116
Service lines	1,667,656
Hydro plant	2,240,736
Equipment	<u>1,232,211</u>
Total capital assets	5,459,719

Less accumulated depreciation	<u>(1,674,040)</u>
Capital assets, net of accumulated depreciation	<u>3,785,679</u>

Total assets	\$ <u><u>3,811,458</u></u>
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Liabilities and Net Position

## Current liabilities:

Accounts payable	2,042
Accrued payroll and benefits	<u>1,814</u>
Total current liabilities	<u>3,856</u>

## Non-current liabilities:

Accrued leave	<u>3,253</u>
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## Net position:

Net investment in capital assets	3,785,679
Unrestricted	<u>18,670</u>
Total net position	<u>3,804,349</u>

Total liabilities and net position	\$ <u><u>3,811,458</u></u>
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See accompanying notes to basic financial statements.

## CITY OF AKUTAN

Electric Enterprise Fund  
Statement of Revenues, Expenses and  
Changes in Net Position  
Year Ended June 30, 2016

Operating revenues:	
Charges for services	\$ 133,166
City electric usage	30,107
Total operating revenues	<u>163,273</u>
Operating expenses:	
Salaries and benefits	215,991
Outside services	83,273
Parts and supplies	22,481
Travel and per diem	27,223
Insurance	4,563
Telephone	188
Fuel	117,692
Repair and maintenance	8,956
Dues and fees	510
Postage	1,583
Depreciation	228,294
Miscellaneous	1,009
Total operating expenses	<u>711,763</u>
Income (loss) from operations	<u>(548,490)</u>
Other financing sources:	
Transfers in - General Fund	<u>320,865</u>
Change in net position	(227,625)
Net position, beginning of year	<u>4,031,974</u>
Net position, end of year	<u>\$ 3,804,349</u>

See accompanying notes to basic financial statements.

## CITY OF AKUTAN

Electric Enterprise Fund  
Statement of Cash Flows  
Year Ended June 30, 2016

## Cash flows provided (used) by operating activities:

Receipts from customers and users	\$ 162,085
Payments to suppliers	(274,361)
Payments to employees	(218,561)
Net cash flows provided (used) by operating activities	<u>(330,837)</u>

## Cash flows provided (used) noncapital financing activities:

Transfers in- general fund	<u>320,865</u>
Net increase (decrease) in cash and cash equivalents	(9,972)

Beginning cash and cash equivalents	<u>19,032</u>
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Ending cash and cash equivalents	<u>\$ 9,060</u>
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## Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	(548,490)
Adjustments to reconcile operating loss to net cash flows from operating activities:	
Depreciation	228,294
(Increase) decrease in assets:	
Accounts receivable	(1,188)
Fuel inventory	1,159
Increase (decrease) in liabilities:	
Accounts payable	(8,042)
Accrued payroll benefits	1,002
Accrued leave	<u>(3,572)</u>
Net cash flows provided (used) by operating activities	<u>\$ (330,837)</u>

See accompanying notes to basic financial statements.



# CITY OF AKUTAN

## Notes to Basic Financial Statements

June 30, 2016

### (1) Summary of Significant Accounting Policies

#### Reporting Entity

The City of Akutan (City) was incorporated in 1979 as a second class city under the laws of the State of Alaska. The City operates under a Council-Mayor form of government and performs municipal duties allowed by Alaska statutes and as directed by its residents.

The financial statements included in this report are for the City of Akutan only. There are no other component units for which the City of Akutan is financially accountable, nor do any special financial relationships exist between the City and any other entity.

The accounting policies of the City conform to generally accepted accounting principles accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies:

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the City. In general, the effect of interfund activity has been removed from these statements to minimize the double-counting of internal activities. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely primarily on fees and charges to external parties.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) fees, fines and charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, grants and entitlements not restricted to a specific purpose, investment income, and other items not properly included among program revenues are reported instead as *general revenues*.

Deferred inflows of resources are the acquisition of fund balance/net position by the City that are applicable to a future reporting period. Deferred outflows of resources are the consumption of fund balance/net position by the City that are applicable to a future reporting period.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All other funds are presented in a single column as "other government funds".

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers all revenues except grant reimbursements to be available if they are collected within 60 days after year end. Grant reimbursements are considered available if they are collected within one year after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only to the extent they have matured.

Fish taxes, charges for services, rentals, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the government.

Entitlements and shared revenues are recorded at the time of a receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants, including capital grants, recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met and when revenues are considered to be available and measurable, which is considered to be within 12 months of the end of the current fiscal period.

The City reports the following major funds:

#### Major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Permanent Special Revenue Fund* manages funds for operations in the event there is a fisheries decline or other community disaster.

The *Fuel/Gas Special Revenue Fund* accounts for activities related to providing residents and the city with heating and vehicle fuel.

The *Geothermal Development Special Revenue Fund* accounts for activities related to a feasibility study to determine if geothermal energy sources are economical for the City of Akutan.

The *Duplex Construction Capital Project Fund* accounts for activities related to the construction of a new housing duplex owned by the City.

#### Major proprietary fund –

The *Electric Enterprise Fund* is used to account for the operations of the electric utility.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

Additionally, the City reports the following fund types:

- Special Revenue Funds – accounts for revenue sources that are legally restricted or committed to expenditures for specific purposes.
- Capital Project Funds – accounts for the acquisition of the capital assets or construction of major capital projects not being financed by proprietary funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are allocated administration fees and charges between the enterprise fund and the various other funds and departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. In addition, general revenues include all taxes, investment income, and State entitlement revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Revenue recognition of capital contributions are based on the requirements of the Governmental Accounting Standards Boards Certification N50 Non-exchange transactions.

#### Estimates

In preparing the financial statements, management of the City is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and revenues and expenditures/expenses for the period. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

The City follows Governmental Accounting Standards Boards Certification P80. This statement established standards for reporting cash flows of Proprietary Funds. For purposes of the statement of cash flows, the enterprise fund considers all equity in central treasury to be cash and cash equivalents. The central treasury, which holds cash and investments, is used essentially as a cash management pool by each fund.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following financial instruments are recorded at fair value or at amounts that approximate fair value: (1) cash and cash equivalents, (2) receivables, net, (3) certain other current assets, (4) accounts payable, and (5) other current liabilities. The carrying amounts reported in the balance sheet and Statement of Net Position for the above financial instruments closely approximates their fair value due to the short-term nature of these assets and liabilities, except for the City's investments. The carrying amount of the City's investments are determined based on quoted market prices.

The carrying amount of notes receivable and notes payable approximates fair value for those financial instruments with interest at variable rates, as those rates approximate current market rates for notes with similar maturities and credit quality.

#### Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The prepaid assets do not reflect current available resources and, thus, an equivalent portion of fund balance is classified as nonspendable in the fund financial statements.

#### Inventory

Inventories are valued at cost (first-in, first-out). Inventory consists of fuel held for resale and/or consumption by City departments. The cost is recorded as an expenditure or expense at the time individual inventory items are consumed. Reported inventories are equally offset by a portion of fund balance classified as nonspendable in the fund financial statements which indicates that these do not constitute "available spendable resources" even though they are a component of net current assets.

#### Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All account receivables are reported net of an allowance for doubtful receivables. The allowance for doubtful receivables is an estimate of the amount uncollectible based on past experience.

#### Accrued Leave

The City allows employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured (e.g. the employee has terminated employment).

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### Capital Assets

Capital assets, which include property, plant, and equipment and infrastructure assets (e.g. roads and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	20-40 years
Infrastructure (dock, floats, etc.)	50 years
System infrastructure	20-50 years
Machinery and equipment	5-20 years

#### Unavailable Revenue

Resource inflows that do not qualify for recognition as revenue in a governmental fund because they are not yet considered to be available.

#### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/from PERS's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefits payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms, investments are reported at fair value.

#### Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form — long-term receivables, prepaid items or inventories; or (b) legally or contractually required to be maintained intact. Such constraint is binding until legal or contractual requirement is repealed or the amount becomes spendable.

The spendable portion of fund balances comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

*Restricted fund balance* – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Such constraint is binding unless modified or rescinded by external body, laws, or regulation.

*Committed fund balance* – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the City Council - the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the City removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned fund balance* – This classification reflects the amounts constrained by the City's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council and City Administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

*Unassigned fund balance* – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources—committed, assigned, and unassigned—in order as needed.

Compliance with the provisions of the Fund Balance Classification Policy are reviewed as part of the annual budget adoption process. The City Manager reports to the Council as close to the end of the year as possible the anticipated year-end fund balance or deficit. The Council takes appropriate action to commit or assign, or otherwise allocate prior year fund balances as a part of the budget planning process.

#### Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Any encumbrances outstanding at year end are reported as appropriate constraints of fund balances if they meet the definitions and criteria as outlined above.

#### Net Position

Government-wide net position is divided into three components:

Net investment in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

Restricted net position – consists of assets that are restricted by the City's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

Unrestricted – all other net position is reported in this category.

#### Grants and Other Intergovernmental Revenues

In applying the measurable and available concepts to grants and intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts are considered "earned"; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the measurable and available criteria are met.

#### Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to construct assets. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

#### Budgetary Accounting

An operating budget is adopted each fiscal year for the General Fund and most Special Revenue Funds on the same modified accrual basis used to reflect actual revenues and expenditures. Appropriations for these funds lapse at year end to the extent that they have not been expended or encumbered. The Capital Project funds adopt project-length budgets.

Supplemental appropriations that amend the total expenditures of any department or fund require Council approval. The budgeted financial statements presented in this report reflect the final budget authorization, including amendments made during the year.

The City follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. The Administrator must submit to the City Council by May 1 a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted by the City Council to provide an opportunity for public comment.
- c. By June 15, by City Council action, the budget is legally enacted through passage of an ordinance. If the City Council fails to pass an ordinance, the budget submitted by the Administrator becomes the adopted budget.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

In order to demonstrate budgetary compliance, accounting principles in the United States require that management provide certain budgetary comparison schedules for the General Fund and each major special revenue fund with an annually adopted budget. For fiscal year 2016, The City adopted a project length budget for the Permanent Special Revenue Fund and Other Capital Projects Capital Project Fund. Therefore the budgetary schedule has not been presented with the required supplementary information.

#### Fund Deficit

The Fuel/Gas Special Revenue Fund had a deficit of \$68,159 at June 30, 2016. Future operations and transfers from the General Fund are expected to finance the deficit.

#### (2) Cash and Investments

The City's cash and investment are comprised of the following at June 30, 2016:

Demand and money market accounts	\$ 3,340,188
Investments	<u>1,377,978</u>
	\$ <u>4,718,166</u>

Except for the Permanent Fund and Geothermal Development Special Revenue Funds, Other Capital Projects, and Duplex Construction Capital Project Funds, all cash is maintained in a central treasury and is available for use by all funds. Each fund's portion of the central treasury is displayed on the balance sheet as "cash and investments" or in the case of "negative" cash, is included in "due to other funds." The City's cash is held in the form of demand accounts including checking, savings, and money market accounts held by commercial banks and money market funds in investment accounts as follows:

Money market funds	\$ 2,506,539
Bank deposits at carrying value	731,943
Certificates of deposit	100,323
Petty cash	<u>1,383</u>
Total	\$ <u>3,340,188</u>

*Custodial credit risk* - is the risk that in the event of a bank failure, the City's deposits may not be returned to it. To limit credit risk, City policy requires that all deposits be insured or covered by collateralization agreements although one of the City's current banking arrangements does not include collateralization and was uninsured to the extent of approximately \$583,329 at June 30, 2016.



# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

### *Investment policy*

The City's investment policy authorizes investments in:

1. Treasury bonds, bills, notes or other general obligation evidences of indebtedness of the United States or an agency or instrumentality of the United States, or of the State of Alaska, or of other states of the United States, or of this City, of other cities of the State, and of boroughs of this State;
2. Fully insured or fully collateralized certificates of deposit, savings deposits, and other interest-bearing deposit accounts in member banks insured by the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC);
3. Repurchase agreements where the general checking balance at the end of each business day is used to buy a security from the bank and held over night;
4. Investments through the Alaska Municipal League Investment Pool (AMLIP); and
5. Domestic, international, and real estate equities.

*Interest rate risk* - is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Investment maturities at June 30, 2016 are as follows:

	Fair Value	Investment Maturities (in Years)		
		Less Than 1	1-5	More Than 5
Investment Type				
Mutual Funds:				
Mid-Cap	\$ 67,301	67,301	-	-
Large Cap	206,570	206,570	-	-
International	155,670	155,670	-	-
Fixed Income:				
Corporate Bonds	261,951	-	157,876	104,075
Government Mortgage Backed Securities	19,285	-	-	19,285
U.S. Treasury Notes	667,201	-	401,140	266,061
Total investments	\$ 1,377,978	429,541	559,016	389,421

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
Investments by fair value level				
Mutual Funds	429,541	429,541	-	-
Corporate Bonds	261,951	261,951	-	-
Mortgage Bonds	19,285	19,285	-	-
U.S. Treasury Notes	667,201	667,201	-	-
Total Investments	1,377,978	1,377,978	-	-

*Credit risk* - is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investments in mutual funds of \$429,541 and Government Mortgage Backed Securities of \$19,285 were not rated. The City's investments in Corporate Bonds of \$261,951 were rated as follows by Standard and Poor's: \$76,291 AA-, \$25,978 A, \$105,826 A-, and \$53,856 BBB+. The City's investments in U.S. Treasuries of \$667,201 are rated AAA.

#### *Concentration of Credit Risk*

The City places no limit on the amount that the City can invest in any one issue. At June 30, 2016, more than 5% of the City's investments were held in securities of the issuer listed below:

<u>Type of Investments</u>	<u>Amount</u>	<u>Of Investment</u>
SPDR S&P 500 ETF Trust	\$ 157,106	11.4%
IShares Core MSCI EAFE ETF	\$ 155,670	11.3%
U.S. Treasury Bills and Notes	\$ 667,201	48.4%

Pooled investments are invested with the Alaska Municipal League Investment Pool, Inc. (AMLIP). The AMLIP is an external investment pool which is rated AAA for credit risk purposes. Alaska Statute 37.23 establishes regulatory oversight of the pool. The law sets forth numerous requirements regarding authorized investments and reporting. The share value of investments in the AMLIP is approximately equal to fair value.

### (3) **Investment in Southwest Governments, LLC**

The City has purchased a 40 percent ownership in Southwest Governments, LLC, an investment company formed to buy an office building in Anchorage, Alaska. The office building was purchased in May 2002 and is currently rented to outside parties, including the group that owns Southwest Governments, LLC. The City's investment in Southwest Governments, LLC, is recorded on the equity method. The City's balance in this investment at June 30, 2016, is \$555,444.

**CITY OF AKUTAN**

Notes to Basic Financial Statements, Continued

**(4) Accounts Receivable and Valuation Allowance**

The City maintains accounts receivable balances of which a portion is reserved as an allowance for doubtful receivables. At June 30, 2016, receivables for the City's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

<u>Governmental Funds</u>				
	General Fund	Fuel/Gas Special Revenue Fund	Geothermal Development Special Revenue Fund	Duplex Construction Capital Project Fund
Receivables:				
Fish taxes	\$ 372,534	-	-	-
Customers	9,680	29,865	-	-
Grants	-	-	147,627	320,183
Notes receivable	62,564	-	-	-
Other	31,939	-	-	-
Gross receivables	<u>476,717</u>	<u>29,865</u>	<u>147,627</u>	<u>320,183</u>
Less: allowance for uncollectibles	<u>(27,360)</u>	<u>(20,000)</u>	<u>-</u>	<u>-</u>
Net receivables	<u>\$ 449,357</u>	<u>9,865</u>	<u>147,627</u>	<u>320,183</u>

<u>Governmental Funds, continued</u>				
	Other Governmental Funds	Total Governmental Funds	Electric Enterprise Fund	Total
Receivables:				
Fish taxes	\$ -	372,534	-	372,534
Customers	-	39,545	7,200	46,745
Grants	-	467,810	-	467,810
Notes receivable	-	62,564	-	62,564
Other	9,539	41,478	-	41,478
Gross receivables	<u>9,539</u>	<u>983,931</u>	<u>7,200</u>	<u>991,131</u>
Less: allowance for uncollectibles	<u>-</u>	<u>(47,360)</u>	<u>-</u>	<u>(47,360)</u>
Net receivables	<u>\$ 9,539</u>	<u>936,571</u>	<u>7,200</u>	<u>943,771</u>

The City reports deferred inflows of resources for unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. For the year ended June 30, 2016, total unavailable revenues amounted to \$3,960.

# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

### (5) Long-Term Receivable

In August 2010, the City signed an agreement with Akutan Traditional Council to loan \$100,400 to the Council for construction of six homes. The Council makes payments as funds are available. The long-term receivable at June 30, 2016 was \$62,564.

### (6) Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b><u>Governmental activities</u></b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements	\$ 793,886	-	-	793,886
Construction in progress	<u>1,236,061</u>	<u>900,459</u>	<u>1,014,329</u>	<u>1,122,191</u>
Total capital assets not being depreciated	<u>2,029,947</u>	<u>900,459</u>	<u>1,014,329</u>	<u>1,916,077</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	4,712,519	1,014,329	-	5,726,848
Equipment	1,034,500	41,192	-	1,075,692
Water and sewer lines	625,000	-	-	625,000
Infrastructure	<u>6,471,378</u>	<u>-</u>	<u>-</u>	<u>6,471,378</u>
Total capital assets being depreciated	<u>12,843,397</u>	<u>1,055,521</u>	<u>-</u>	<u>13,898,918</u>
Less accumulated depreciation for:				
Buildings and improvements	1,446,653	138,483	-	1,585,136
Equipment	437,791	83,045	-	520,836
Water and sewer lines	385,000	12,500	-	397,500
Infrastructure	<u>2,469,026</u>	<u>164,908</u>	<u>-</u>	<u>2,633,934</u>
Total accumulated depreciation	<u>4,738,470</u>	<u>398,936</u>	<u>-</u>	<u>5,137,406</u>
Total capital assets being depreciated, net	<u>8,104,927</u>	<u>656,585</u>	<u>-</u>	<u>8,761,512</u>
Governmental activity capital assets, net	\$ <u>10,134,874</u>	<u>1,557,044</u>	<u>1,014,329</u>	<u>10,677,589</u>

# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b><u>Business-type activities</u></b>				
<i>Capital assets:</i>				
Buildings and improvements	319,116	-	-	319,116
Service lines	1,667,656	-	-	1,667,656
Hydro plant	2,240,736	-	-	2,240,736
Equipment	<u>1,232,211</u>	<u>-</u>	<u>-</u>	<u>1,232,211</u>
Total capital assets	<u>5,459,719</u>	<u>-</u>	<u>-</u>	<u>5,459,719</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ 142,623	12,594	-	142,623
Service lines	547,923	78,421	-	547,923
Infrastructure	400,518	47,433	-	400,518
Equipment	<u>354,682</u>	<u>89,846</u>	<u>-</u>	<u>354,682</u>
Total accumulated depreciation	<u>1,445,746</u>	<u>228,294</u>	<u>-</u>	<u>1,674,040</u>
Business-type activity capital assets, net	\$ <u>4,013,973</u>	<u>228,294</u>	<u>-</u>	<u>3,785,679</u>

Depreciation expense was charged to the functions as follows:

<b><u>Governmental activities</u></b>	
General government	\$ 49,214
Public safety	12,871
Community services	105,657
Public works	91,816
Port authority	<u>139,378</u>
Total governmental activities	<u>\$ 398,936</u>
<b><u>Business-type activities</u></b>	
Electric utility	<u>\$ 228,294</u>

**CITY OF AKUTAN**

Notes to Basic Financial Statements, Continued

**(7) Interfund Receivables, Payables, and Transfers**

**(a) Interfund Receivables and Payables**

A summary of interfund receivables and payables at June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major governmental funds:		
General Fund	Fuel/Gas Special Revenue Fund	\$ 94,473
General Fund	Permanent Special Revenue Fund	7,777
General Fund	Other Governmental Funds	5,620
		<u>\$ 107,870</u>

**(b) Transfers:**

From General Fund to:

Electric Enterprise Fund to cover operating costs	\$ 320,865
Duplex Construction Capital Project Fund for local matching	15,507
Other Governmental Funds to cover capital costs	544,925

From Other Governmental Funds to the General Fund  
to transfer excess fund balance

388
<u>\$ 881,685</u>

Total transfers

**(8) Long-Term Debt**

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2016:

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Retired</u>	Balance June 30, <u>2016</u>	Due Within <u>One Year</u>
<b><u>Governmental activities</u></b>					
Accrued leave (net of payouts)	<u>57,915</u>	<u>66,620</u>	<u>57,915</u>	<u>66,620</u>	<u>66,620</u>
<b><u>Business-type activities</u></b>					
Accrued leave (net of payouts)	<u>\$ 6,825</u>	<u>3,253</u>	<u>6,825</u>	<u>3,253</u>	<u>3,253</u>

# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

### (9) Fund Balances

Fund balances, reported in the City's individual major funds and nonmajor funds in the aggregate on the governmental funds balance sheet is subject to the following constraints:

	General Fund	Permanent Special Revenue	Fuel/ Gas Special Revenue	Geothermal Development Special Revenue	Duplex Construction Capital Project	Other Governmental Funds	Totals
Nonspendable:							
Inventory	\$ 96,442	-	140,730	-	-	-	237,172
Prepaid items	80,911	-	-	-	-	-	80,911
Long-term receivables	62,564	-	-	-	-	-	62,564
Investment in Southwest Governments, LLC	555,444	-	-	-	-	-	472,543
Total nonspendable	\$ 795,361	-	140,730	-	-	-	853,190
Committed:							
Permanent Fund	\$ -	1,396,281	-	-	-	-	1,396,281
Geothermal Development	-	-	-	513,623	-	-	513,623
Duplex Construction	-	-	-	-	173,646	-	173,646
Water and Sewer Projects	-	-	-	-	-	178,000	178,000
Boat Harbor Projects	-	-	-	-	-	10,000	10,000
Other Capital Projects	-	-	-	-	-	49,396	49,396
Total committed	-	1,396,281	-	513,623	173,646	237,396	2,320,946
Unassigned (deficit)	2,892,596	-	(208,889)	-	-	-	2,683,707
Total fund balances	\$ 3,605,056	1,396,281	(68,159)	513,623	173,646	237,396	5,857,843

### (10) Landfill Closure and Postclosure Liability

State and federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stops accepting waste, accounting principles generally accepted in the United States of America require that the City report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. However, at this time, the study to estimate the ultimate cost of closure and postclosure monitoring has not been completed. As a result, there is no accrual to provide for these costs in the financial statements.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### (11) **Employee Retirement Systems and Plan**

The City follows Governmental Accounting Standards Board (GASB) Codification P20, Accounting for Pensions by State and Local Governmental Employees and GASB Codification P50, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. GASB Codification P20 and GASB Codification P50 establish uniform standards for the measurement, recognition and display of pension and other post-employment benefits other than pensions (healthcare) expenditures/expense and related liabilities, assets, note disclosure and applicable required supplementary information in the financial reports of state and local governmental employers.

*Retirement Plans.* All full-time employees and certain permanent part-time employees of the City participate in the State of Alaska Public Employees' Retirement System (PERS). In addition to the pension plan the system also administers other post-employment benefit plans.

The system is governed by the Alaska Retirement Management Board. The benefit and contribution provisions are established by State law and may be amended only by the State legislature. The Administrator of the Plan is the Commissioner of Administration or the Commissioner's designee.

*Summary of Significant Accounting Policies.* The financial statements for PERS are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value.

PERS acts as the common investment and administrative agencies for the following multiple-employer plans:

<b>Plan Name</b>	<b>Type of Plan</b>
Defined Benefit Pension Plan (DB)	Cost-sharing, Defined Benefit Pension
Defined Contribution Pension Plan (DC)	Defined Contribution Pension
Defined Benefit Other Postemployment Benefits (DB)	
Occupational Death and Disability Plan	Cost-sharing, Defined Benefits OPEB
Alaska Retiree Healthcare Trust Plan	Cost-sharing, Defined Benefits OPEB
Retiree Medical Plan	Cost-sharing, Defined Benefits OPEB
Defined Contribution Other Postemployment Benefits (DC)	
Healthcare Reimbursement Arrangement Plan	Defined Contribution OPEB

#### **Other Postemployment Benefit Plans (OPBP)**

##### *Occupational Death and Disability Plan (DB)*

The Occupational Death and Disability Plan provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members within the System.



## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### *Alaska Retiree Healthcare Trust Plan (DB)*

Beginning July 1, 2007, the Alaska Retiree Healthcare Trust Plan (ARHCT), a Healthcare Trust Fund of the State, was established. The ARHCT is self-funded and provides major medical coverage to retirees of the System. The System retains the risk of loss of allowable claims for eligible members. The ARHCT began paying member healthcare claims on March 1, 2008. Prior to that, healthcare claims were paid for by the Retiree Health Fund (RHF).

#### *Healthcare Reimbursement Arrangement Plan (DC)*

The Healthcare Reimbursement Arrangement Plan was established to allow medical expenses to be reimbursed from individual savings accounts established for eligible participants.

#### ***Alaska Public Employee Retirement System (PERS) – Defined Benefit Plan (DB)***

*Plan Description.* The City participates in the Alaska Public Employees' Retirement System (PERS), a cost sharing multiple employer defined benefit pension plan. PERS provides retirement benefits, disability and death benefits, and post-employment healthcare to plan members and beneficiaries. The Public Employee's Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PERS. This report may be obtained from the system at Pouch C, Juneau, Alaska 99811 or online at <http://doa.alaska.gov/drb/pers>.

*Pension Benefits.* All tier employee benefits vest with five years of credited service. There are three tiers of employees based on entry date. Tier I employees enrolled prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age 55 or early retirement age 50. For tier II and III employees enrolled after June 30, 1986, but before July 1, 2006, the normal and early retirement ages are 60 and 55, respectively. All tier employees with 30 or more years of credited service may retire at any age and receive a normal benefit.

The PERS defined benefit is closed to new hires enrolled on or after July 1, 2006. New hires after this date participate in the PERS defined contribution plan (DC) described later in these notes.

Currently there are 159 employers participating in PERS, including the State of Alaska and 158 political subdivisions and public organizations.

Retirement benefits are calculated by multiplying the average monthly compensation (AMC) times credited PERS service times the percentage multiplier. The AMC is determined by averaging the salaries earned during the five highest (three highest for Police/Fire members or members hired prior to July 1, 1996) consecutive payroll years. Members must earn at least 115 days of credit in the last year worked to include it in the AMC calculation. The PERS pays a minimum benefit of \$25 per month for each year of service when the calculated benefit is less.

The percentage multipliers for police/fire personnel are 2% for the first ten years of service and 2.5% for all service over 10 years. The percentage multipliers for all other participants are 2% for the first ten years, 2.25% for the next ten years, and 2.5% for all remaining service earned on or after July 1, 1986. All service before that date is calculated at 2%.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### **Employee Retirement Systems and Plan, continued**

Post-employment healthcare benefits are provided without cost to all members first enrolled before July 1, 1986. Members first enrolled after June 30, 1986, but before July 1, 2006 and who have not reached age 60 may elect to pay for major medical benefits.

*Post Retirement Pension Adjustments.* Post retirement pension adjustments (PRPAs) are granted annually to eligible benefit recipients when the consumer price index (CPI) increases during the preceding calendar year. PRPAs are calculated by multiplying the recipient's base benefit, including past PRPAs, times:

- (a) 75% of the CPI increase in the preceding calendar year or 9%, whichever is less, if the recipient is at least 65 or on PERS disability; or
- (b) 50% of the CPI increase in the preceding calendar year or 6%, whichever is less, if the recipient is at least 60, or has been receiving benefits for at least five years.

Ad hoc PRPAs, up to a maximum of 4%, may be granted to eligible recipients who first entered the PERS before July 1, 1986, if the CPI increases and the financial condition of the fund will permit an increase. In a year where an ad hoc PRPA is granted, eligible recipients will receive the higher of the two calculations.

*Funding Policy.* In April 2008 the Alaska Legislature passed legislation which statutorily capped the employer contribution, established a state funded "on-behalf" contribution, and required that employer contributions be calculated against all PERS eligible wages, including wages paid to participants of the PERS Tier IV defined contribution plan (DC) described later in these footnotes. The state legislature capped the rate at 22%, with the State contributing an on-behalf payment for the difference between the actuarial contribution and the cap.

*Salary Floor.* During the 25<sup>th</sup> legislation session, Senate Bill 125 passed, which established a June 30, 2008 salary floor under AS 39.35.255(a)(2). The salary floor is the total base salaries paid by an employer to active employees of the system as of the fiscal year ending June 30, 2008. The statute requires the Division of Retirement and Benefits (Division) to collect employer contributions at a minimum based on FY 2008 base salaries.

*Termination Costs.* If the City decides to terminate coverage for a department, group, or other classification of members, even if that termination results from the decision to divest of a particular City function, all affected employees in that department, group or other classification of members become immediately vested in the plan. The City must pay to have a termination study completed. The purpose of the study is to calculate the City's one-time termination costs. The costs represent the amount necessary to fully fund the costs of plan members who become vested through this process and for other changes in actuarial assumptions, such as, earlier than expected retirement, that arise from the act of termination of coverage. The City must pay a lump sum within 60 days of termination or arrange a payment plan that is acceptable to the PERS Administrator. For fiscal year 2016 the past service rate is 16.53%.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### **Employee Retirement Systems and Plan, continued**

*Employee Contribution Rate.* The City PERS active members are required to contribute 6.75% (4.12% pension costs and 2.63% OPEB).

*Employer and Other Contribution Rates.* There are several contribution rates associated with the pension and healthcare contributions and related liabilities. These amounts are calculated on an annual basis.

*Employer Effective Rate:* This is the actual employer pay-in rate. Under current legislation, this rate is statutorily capped at 22% (13.25% pension costs and 8.75% OPEB) of eligible wages, subject to the salary floor, and other termination costs as described above. This 22% rate is calculated on all PERS participating wages, including those wages attributable to employees in the defined contribution plan.

*ARM Board Adopted Rate:* This is the rate formally adopted by the Alaska Retirement Management Board. This rate is actuarially determined and used to calculate annual Plan funding requirements, without regard to the statutory rate cap or the GASB accounting rate. This rate is 27.19% (16.59% pension and 10.60% OPEB). Prior to July 1, 2015, there were no constraints or restrictions on the actuarial cost method or other assumptions used in the ARM Board valuation. Effective July 1, 2015, the Legislature requires the ARM Board to adopt employer contribution rates for past service liabilities using a level percent of pay method over a closed 25 year term which ends in 2039. This will result in lower ARM Board Rates in future years.

*On-behalf Contribution Rate:* This is the rate paid in by the State as an on-behalf payment as mandated under current statute. Under state law, subject to annual appropriation, the state will contribute an on-behalf payment into the plan in an amount equal to the difference between the ARM Board Rate and the Employer Effective Rate. As a result, the On-behalf Contribution Rate for 2016 is 5.19% (3.63% pension and 1.56% OPEB). On-behalf contribution amounts have been recognized in these financial statements as both revenue and expenditures.

*GASB Rate:* This is the rate used to determine the long-term pension and healthcare liability for plan accounting purposes. Certain actuarial methods and assumptions for this rate calculation are mandated by the *Governmental Accounting Standards Board* (GASB). Medicare Part D subsidies are not reflected in this rate. The rate uses an 8% pension discount rate and a 4.55% healthcare discount rate. The current rate is 96.52% (37.79% pension and 58.73% OPEB).

# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

### **Employee Retirement Systems and Plan, continued**

Employer contributions for the years ended June 30, 2016, 2015 and 2014 are as follows:

		Pensions (DB)	Other Post-Employment Benefits (DB)	Total
2016	\$	52,833	35,256	85,089
2015		45,506	34,331	79,837
2014		37,168	39,686	76,854

The defined benefit unfunded liability (DBUL) presented under the defined contribution plan includes employer contributions of \$29,351 (pension) and \$19,497 (OPEB).

For the year ended June 30, 2016 the State of Alaska contributed \$47,005 (70% pension cost, 30% OPEB) on-behalf of the City which has been recorded in the fund financial statements under the modified accrual basis of accounting. In the government-wide financial statements the pension expense has been adjusted as of the measurement date of June 30, 2015 to a total of \$72,366, to represent the pension expense attributable to the State under the full accrual basis of accounting.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* At June 30, 2016, the City reported a liability that reflected a reduction for State pension support provided to the City. The amount recognized by the City as its proportionate share of net pension liability, the related State support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the net pension liability	\$	1,952,237
State's proportionate share of the net pension liability		<u>524,021</u>
Total	\$	<u>2,476,258</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the present value of future contributions from FY2017 through FY2039, as determined by projections based on the June 30, 2015 valuation. At June 30, 2016, the City's proportion was 0.0403%, which is an increase of 0.0214 percentage points from its proportion measured as of June 30, 2015.

Based on the measurement date of June 30, 2015, the City recognized pension expense of \$782,647 for the year ended June 30, 2016. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

### Employee Retirement Systems and Plan, continued

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,276	-
Changes of assumptions	114,149	-
Net difference between projected and actual earnings on pension plan investments	-	(34,563)
Changes in proportion and differences between City contributions and proportionate share of contributions	390,596	-
City contributions subsequent to the measurement date	<u>82,184</u>	<u>-</u>
Total	\$ <u>589,205</u>	<u>(34,563)</u>

\$82,184 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2017	\$ 441,940
2018	20,686
2019	(22,197)
2020	<u>32,029</u>
Total	\$ <u>472,458</u>

For the year ended June 30, 2016, the City recognized \$440,683 of amortization of the net deferred inflows and outflows of resources.

*Actuarial Assumptions:* The total pension liability in the June 30, 2015 (latest available) actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement. The actuarial assumptions were based upon the results of an actuarial experience study performed as of June 30, 2013.

Investment return / discount rate	8% per year (geometric), compounded annually, net of expenses
Salary scale	Inflation – 3.12% per year Productivity – 0.50% per year
Payroll growth	3.62% per year (inflation + productivity)

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### **Employee Retirement Systems and Plan, continued**

Total inflation	Total inflation as measured by the Consumer Price Index for urban and clerical workers from Anchorage is assumed to increase 3.12% annually.
Mortality (Pre-termination)	Based upon 2010-2013 actual mortality experience. 60% of male rates and 65% of female rates of post termination mortality rates. Deaths are assumed to be occupational 70% of the time for peace officers, and firefighters, 50% of the time for others.
Mortality (Post-termination)	96% of all rates of the RP-2000 combined mortality table, 2000 base year projected to 2018.
Total turnover	Based upon the 2010-2013 actual withdrawal experience.
Disability	Incidence rates based on 2010-2013 actual experience. Post-disability mortality in accordance with the RP-2000 Disabled Retiree Mortality Table. Disabilities are assumed to be occupational 70% of the time for peace officers / firefighters, 50% of the time for others.
Retirement	Retirement rates based upon the 2010-2013 actual experience. Deferred vested members are assumed to retire at their earliest unreduced retirement date for others. For peace officers/firefighters, Tier 1 deferred vested members are assumed to retire at age 55 and Tiers 2 and 3 deferred vested members are assumed to retire at age 60.
Marriage and age difference	Wives are assumed to be three years younger than husbands. For others, 75% of male members and 70% of female members are assumed to be married. For peace officers/firefighters, 85% of male members and 60% female members are assumed to be married.

# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

### **Employee Retirement Systems and Plan, continued**

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The best estimates of arithmetic real rates of return for each major asset class are summarized below:

<b><u>Asset Class</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>
Domestic Equity	6.77%
International Equity	7.50%
Private Equity	10.86%
Fixed Income	2.05%
Real Estate	3.63%
Absolute Return	4.80%

*Discount Rate:* The discount rate used to measure the total pension liability was 8.00%. The projection of the cash flows used to determine the discount rate assumed that Employer and State contributions will continue to follow the current funding policy, which meets State statutes. Based on those assumptions, the pension plan's fiduciary net pension was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate:* The following presents the net pension liability of the plan calculated using the discount rate of 8%, as well as what the Plans' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<b><u>1% Decrease (7%)</u></b>	<b><u>Current Rate (8%)</u></b>	<b><u>1% Increase (9%)</u></b>
Net pension liability	\$ 2,595,333	1,952,237	1,410,816

# CITY OF AKUTAN

## Notes to Basic Financial Statements, Continued

### Employee Retirement Systems and Plan, continued

#### **Alaska Public Employee Retirement System (PERS) – Defined Contribution Plan (DC)**

*Plan Description and Funding Requirements.* City's and Public Employers in the State of Alaska have a defined contribution retirement plan (PERS Tier IV) for new hires first enrolled on or after July 1, 2006. Plan members make mandatory contributions of 8% of gross eligible compensation. This amount goes directly to the individual's account. State statutes require the employer to contribute 5% of employees' eligible compensation. Additionally, employers are required to contribute to OPEB (DB): 1.68% for the retiree medical plan (DB), 0.22% for occupational and death and disability benefits (DB) and 3% of employers' average annual employee compensation to the health reimbursement arrangement (HRA DC). The effective employer contribution is 22%. Plan members are 100% vested with their contributions.

Members become vested in employers' contributions as follows:

- 2 years of service – 25%
- 3 years of service – 50%
- 4 years of service – 75%
- 5 years of service – 100%

Plan provisions and contribution requirements and amendments are established by the Alaska Retirement Management Board (ARMB). Total contributions for the year ended June 30, 2016 are as follows:

	Employer	Employee
Defined contribution – pension (DC)	\$ 23,353	37,364
Other post-employment benefits (DB):		
Retiree medical plan	7,842	-
Occupational death and disability benefits	1,027	-
Other post-employment benefits (DC) –		
Health reimbursement agreement (HRA)	22,088	-
Defined benefit unfunded liability (DBUL)	48,848	-
	<u>\$ 103,158</u>	<u>37,364</u>

Actual contributions were equal to the annual required contributions. The Defined Benefit Unfunded Liability (DBUL) is computed as the difference between the statutory employer contribution rate less employer contributions for the defined contribution, major medical, occupational death and disability and the health reimbursement arrangement. The DBUL calculation is allocated 60% pension and 40% OPEB.



## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### **Employee Retirement Systems and Plan, continued**

Employer contributions for the years ended June 30, 2016, 2015 and 2014 are as follows:

		Contributions/ Pensions	Other Post-Employment Benefits	Total
2016	\$	52,704	50,454	103,158
2015		34,306	34,365	68,671
2014		43,823	38,144	81,967

Actual contributions were equal to the annual required contributions.

#### **(13) Risk Management**

The City faces a considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability; i.e., errors and omissions, (d) environmental damage, (e) workers' compensation; i.e., employee injuries, and (f) medical insurance costs of employees. Commercial policies, transferring the risk of loss, except for relatively small deductible amounts, are purchased for employee medical costs.

The City participates in the Alaska Municipal League Joint Insurance Association (AML/JIA) which provides insurance coverage for property and contents damage including damage from flood or earthquake, torts, general liability, public officials' liability, and workers' compensation. The AML/JIA is a public entity risk pool organized to share risks among its members. The Association's bylaws provide for the assessment of supplemental contributions from members in the event that losses and expenses for any coverage year exceed the annual contributions and income earned on such contributions for the year. Such supplemental contributions shall be based upon each member's annual deposit contribution in comparison to the aggregate annual deposit contributions of all members. The Association made no supplemental assessments during the year ended June 30, 2016. The City has no coverage for potential losses from environmental damages. Coverage limits and the deductibles on the policies have stayed relatively constant for the past few years.

#### **(14) Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and State governments. Any disallowed claims, including amounts already collected, would become a liability.

The City is involved in various claims and pending litigation as part of the normal course of its activities. In the opinion of management, the disposition of these matters is not expected to have a material adverse effect on the City's financial statements.

## CITY OF AKUTAN

### Notes to Basic Financial Statements, Continued

#### (15) **Subsequent Accounting Pronouncements**

The Governmental Accounting Standards Board has passed several new accounting standards with upcoming implementation dates covering several topics as follows:

- GASB 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Effective for fiscal years beginning after June 15, 2016.
- GASB 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Effective for fiscal years beginning after June 15, 2017.
- GASB 77 – *Tax Abatement Disclosures*. Effective for fiscal years beginning after December 15, 2015.
- GASB 78 – *Pension Provided through Certain Multiple – Employer Defined Benefit Pension Plans*. Effective for fiscal years beginning after December 15, 2015.
- GASB 80 – *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. Effective for fiscal years beginning after June 15, 2016.
- GASB 81 – *Irrevocable Split –Interest Agreements*. Effective for fiscal years beginning after December 15, 2016.
- GASB 82 – *Pension Issues – an Amendment of GASB Statement No. 67, No. 68, and No. 73*. Effective for fiscal years beginning after June 15, 2016.

Statements 77, 78, and 81 are not expected to have any significant impact on the financial statements of the City.

GASB Statements No. 74 and 75, the objective of these Statements is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. For defined benefit OPEB plans that are administered through trusts that meet the specified criteria, this Statement requires two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. Note disclosures and required supplemental information are addressed in these statements. GASB Statement 75 establishes standards for measuring liabilities, deferred inflow and outflows of resources, and expenses/expenditures.

GASB Statement No. 80 – This statement amends the blending requirements for the financial statements presentation of component units of all State and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation when the primary government is the sole corporate member.

GASB Statement No. 82 – The objective of this statement is to address certain pension issues. This statement defines covered payroll in required supplementary information as “the payroll on which contributions to a pension plan are based, and the ratios that use that measure”. This statement also addresses classification of employer paid member contributions as being member contributions. Finally this statement addresses selection of assumptions and clarifies that a deviation is not considered in conformity with the requirements of GASB Statements No. 67, No. 68, or No. 73.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## CITY OF AKUTAN

## General Fund

## Schedule of Revenues, Expenditures

## and Changes in Fund Balance - Original and Final Budget and Actual

Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Budget - Positive (Negative)
Revenues:				
Intergovernmental:				
State of Alaska	\$ 1,327,035	1,327,035	1,303,311	(23,724)
Local:				
Fish taxes	1,800,000	1,800,000	2,098,763	298,763
Investment income	30,000	30,000	38,599	8,599
Other revenues	218,099	96,599	134,907	38,308
Total revenues	<u>3,375,134</u>	<u>3,253,634</u>	<u>3,575,580</u>	<u>321,946</u>
Expenditures:				
Current:				
General government	1,351,009	1,352,009	1,283,709	68,300
Public safety	101,720	101,720	89,810	11,910
Community services	300,063	250,063	161,990	88,073
Public works	459,625	509,025	289,385	219,640
Port authority	808,284	758,284	618,665	139,619
Total expenditures	<u>3,020,701</u>	<u>2,971,101</u>	<u>2,443,559</u>	<u>527,542</u>
Excess of revenues over expenditures	354,433	282,533	1,132,021	849,488
Other financing sources (uses):				
Transfers in	-	15,000	388	(14,612)
Transfers out	<u>(603,887)</u>	<u>(1,132,033)</u>	<u>(881,297)</u>	<u>250,736</u>
Total other financing sources (uses)	<u>(603,887)</u>	<u>(1,117,033)</u>	<u>(880,909)</u>	<u>236,124</u>
Net change in fund balance	\$ <u>(249,454)</u>	<u>(834,500)</u>	251,112	<u>1,085,612</u>
Beginning fund balance			<u>3,353,944</u>	
Ending fund balance			\$ <u>3,605,056</u>	

## CITY OF AKUTAN

Fuel/Gas Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance (Deficit) - Original and Final Budget and Actual  
 Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Budget - Positive (Negative)
Revenues:				
Local:				
Charges for Services -				
Fuel sales	\$ 190,000	190,000	110,284	(79,716)
Expenditures:				
Current - Community Services	190,000	190,000	141,310	48,690
Excess (deficiency) of revenues over (under) expenditures	\$ -	-	(31,026)	(31,026)
Beginning fund balance (deficit)			(37,133)	
Ending fund balance (deficit)			\$ (68,159)	

## CITY OF AKUTAN

Geothermal Development Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Original and Final Budget and Actual  
 Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Intergovernmental:				
Federal sources	\$ 931,000	931,000	251,895	(679,105)
State of Alaska	2,695,000	2,695,000	253,961	(2,441,039)
Local sources - investment income	-	-	74	74
Total revenues	<u>3,626,000</u>	<u>3,626,000</u>	<u>505,930</u>	<u>(3,120,070)</u>
Expenditures:				
Current:				
Public works	<u>3,981,000</u>	<u>3,981,000</u>	<u>547,789</u>	<u>3,433,211</u>
Debt service:				
Principal	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>4,481,000</u>	<u>3,981,000</u>	<u>547,789</u>	<u>3,433,211</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(855,000)</u>	<u>(355,000)</u>	<u>(41,859)</u>	<u>313,141</u>
Other financing sources:				
Proceeds from issuance of debt	500,000	-	-	-
Grant match portion	<u>355,000</u>	<u>355,000</u>	<u>-</u>	<u>(355,000)</u>
Total other financing sources	<u>855,000</u>	<u>355,000</u>	<u>-</u>	<u>(355,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>(41,859)</u>	<u>(41,859)</u>
Beginning fund balance			<u>555,482</u>	
Ending fund balance			<u>513,623</u>	

## CITY OF AKUTAN

## Schedule of City's Proportionate Share of the Net Pension Liability

## Public Employees' Retirement System

June 30, 2016 and 2015

	2016	2015
City's proportion of the net pension liability	0.0403%	0.0189%
City's proportionate share of net pension liability	\$ 1,952,237	882,277
State's proportionate share of the net pension liability associated with the City	524,021	664,805
Total	\$ 2,476,258	1,547,082
City's covered employee payroll	\$ 512,512	551,923
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	381%	160%
Plan fiduciary net position as a percentage of the total pension liability	63.96%	62.37%

Notes to schedule

1. Information presented for 2016 is based upon Plan measurement date June 30, 2015.
2. Measurement is one year prior to fiscal year end for all years presented.
3. This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.

## CITY OF AKUTAN

## Schedule of City's Contributions

## Public Employees Retirement System

Year Ended June 30, 2016 and 2015

	2016	2015
Contractually required contribution	\$ 82,184	64,269
Contributions in relation to the contractually required contribution	(82,184)	(64,269)
Contribution deficiency (excess)	-	-
City's covered-employee payroll	\$ 620,257	512,512
Contributions as a percentage of covered employee payroll	13.25%	12.54%

Notes to schedule

1. Valuation date: June 30, 2014
  2. Actuarially determined contribution rates are calculated as of June 30th, two years prior to the fiscal year in which contributions are reported.
- Methods and assumptions used to determine contribution rates:
3. Actuarial cost method: Entry Age Normal.
  4. Amortization method: Level dollar, closed.
  5. Amortization period: 25 years, layered.
  6. Equivalent single amortization period: 17 years.
  7. Asset valuation method: Actuarial value that smooths investment gains and losses over 5 years, constrained to a range of 80% - 120% of fair value.
  8. Inflation: 3.12% per annum.
  9. Salary increases: Ranges from 6.36% to 4.12% based on service for Peace Officer/Firefighter. Ranges from 9.60% to 3.62% based on age and service for All Others.
  10. Investment rate of return: 8%, net of pension plan investment expenses. This is based on an average inflation rate of 3.12% and a real rate of return of 4.88%.
  11. Retirement age: An age-related assumption is used for participants not yet receiving payments.
  12. Mortality: 1994 Group Annuity Mortality (GAM) Table, sex distinct, 1994 Base Year without margin projected to 2013 using projection Scale AA, 80% of the male table for males and 60% of the female table for females for pre-termination mortality for Peace Officer/Firefighter, 1994 Base Year without margin projected to 2013 using Projection Scale AA, 75% of the male table for males and 55% of the female table for females for pre-termination mortality for All Others and the 1994 GAM Table, sex-distinct, 1994 Base Year without margin projected to 2013 using Projection Scale AA for males and with a 1-year set-forward for females for post-termination mortality.
  13. This schedule is intended to present 10 years of information. Additional years will be included as it becomes available.



# **ADDITIONAL SUPPLEMENTARY INFORMATION**

## CITY OF AKUTAN

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual  
Year Ended June 30, 2016

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Revenues:			
Intergovernmental:			
State of Alaska:			
Fisheries business tax sharing	\$ 1,029,000	943,814	(85,186)
Shared fisheries business and landing tax	69,000	173,049	104,049
Revenue sharing	139,035	139,443	408
PERS relief	90,000	47,005	(42,995)
Total State of Alaska	1,327,035	1,303,311	(23,724)
Local:			
Fish taxes	1,800,000	2,098,763	298,763
Investment income	30,000	38,599	8,599
Total local	1,830,000	2,137,362	307,362
Other revenues:			
Apartment rental	10,100	19,618	9,518
Warehouse rental	1,500	3,325	1,825
IHS clinic lease	16,983	26,287	9,304
Trident lease	15,911	15,911	-
Skiff moorage	5,000	6,980	1,980
Cable fees	21,605	24,556	2,951
Surf inn sales	22,500	14,117	(8,383)
Miscellaneous	3,000	24,113	21,113
Total other revenues	96,599	134,907	38,308
Total revenues	3,253,634	3,575,580	321,946

(Continued)

## CITY OF AKUTAN

## General Fund

Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures:			
Current:			
General government:			
Mayor and council:			
Salaries and benefits	\$ 171,310	180,431	(9,121)
Travel and per diem	5,500	4,148	1,352
Parts and supplies	1,000	-	1,000
Dues and fees	2,000	1,449	551
Contributions	7,000	7,155	(155)
Legal	1,500	4,721	(3,221)
Telephone	-	30	(30)
Total mayor and council	188,310	197,934	(9,624)
Planning and zoning:			
Salaries and benefits	6,050	5,163	887
Contractual services	25,000	38,201	(13,201)
Travel and per diem	3,000	7,770	(4,770)
Insurance	500	-	500
Dues and fees	4,500	-	4,500
Legal	14,058	15,383	(1,325)
Miscellaneous	6,000	554	5,446
Total planning and zoning	59,108	67,071	(7,963)
Administration:			
Salaries and benefits	604,050	595,935	8,115
Contractual services	93,800	109,918	(16,118)
Outside services	15,000	3,825	11,175
Travel and per diem	30,000	29,604	396
Parts and supplies	16,700	24,311	(7,611)
Rent	35,000	31,488	3,512
Insurance	43,000	19,425	23,575
Telephone	25,000	28,806	(3,806)
Electricity	4,000	4,061	(61)
Dues and fees	11,000	3,106	7,894
Postage	541	811	(270)
Freight	2,500	546	1,954
Equipment	12,000	13,666	(1,666)
Repairs and maintenance	12,000	11	11,989

(Continued)

**CITY OF AKUTAN**  
General Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Administration, continued:			
Bank fees	\$ 1,000	5,543	(4,543)
Lobbying	115,000	115,000	-
Fuel	4,000	2,487	1,513
Miscellaneous	80,000	30,161	49,839
Total administration	<u>1,104,591</u>	<u>1,018,704</u>	<u>85,887</u>
 Total general government	 <u>1,352,009</u>	 <u>1,283,709</u>	 <u>68,300</u>
Public safety:			
Salaries and benefits	74,620	77,351	(2,731)
Parts and supplies	1,000	1,626	(626)
Rent	6,000	-	6,000
Insurance	2,100	864	1,236
Repairs and maintenance	500	1,068	(568)
Telephone	1,100	1,723	(623)
Electricity	1,500	4,505	(3,005)
Equipment	12,000	-	12,000
Fuel	2,400	2,638	(238)
Miscellaneous	500	35	465
Total public safety	<u>101,720</u>	<u>89,810</u>	<u>11,910</u>
Community services:			
Clinic and health:			
Insurance	1,900	2,132	(232)
Repairs and maintenance	10,000	2,591	7,409
Electricity	-	250	(250)
Fuel	-	885	(885)
Miscellaneous	5,083	135	4,948
Total clinic and health	<u>16,983</u>	<u>5,993</u>	<u>10,990</u>

(Continued)

**CITY OF AKUTAN**  
General Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Library:			
Salaries and benefits	\$ 36,960	41,140	(4,180)
Parts and supplies	-	35	(35)
Books and subscriptions	600	-	600
Insurance	2,800	2,712	88
Telephone	1,500	844	656
Electricity	600	898	(298)
Fuel	7,000	4,496	2,504
Repairs and maintenance	500	-	500
Postage	300	52	248
Miscellaneous	500	-	500
Total library	<u>50,760</u>	<u>50,177</u>	<u>583</u>
Daycare:			
Salaries and benefits	150,520	92,517	58,003
Parts and supplies	7,000	6,636	364
Books and subscriptions	1,000	-	1,000
Insurance	6,700	859	5,841
Telephone	1,100	76	1,024
Electricity	5,000	2,946	2,054
Fuel	7,000	2,656	4,344
Repairs and maintenance	500	-	500
Postage	-	64	(64)
Freight	-	66	(66)
Miscellaneous	3,500	-	3,500
Total daycare	<u>182,320</u>	<u>105,820</u>	<u>76,500</u>
Total community services	<u>250,063</u>	<u>161,990</u>	<u>88,073</u>
Public works:			
Administration:			
Salaries and benefits	210,051	75,976	134,075
Contractual services	30,000	1,725	28,275
Outside services	-	2,185	(2,185)
Travel and per diem	5,000	2,528	2,472
Building materials	30,000	17,616	12,384
Parts and supplies	2,500	4,002	(1,502)
Insurance	5,159	4,123	1,036
Postage	100	178	(78)
Freight	2,500	2,487	13
Electricity	400	-	400
Fuel	800	66	734

(Continued)

**CITY OF AKUTAN**  
General Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Administration, continued:			
Gasoline	\$ 1,000	-	1,000
Equipment	1,000	13,552	(12,552)
Repairs and maintenance	5,000	5,344	(344)
Dues and fees	250	-	250
Miscellaneous	10,000	9,715	285
Total administration	<u>303,760</u>	<u>139,497</u>	<u>164,263</u>
Cable:			
Salaries and benefits	2,485	26,584	(24,099)
Parts and supplies	2,500	1,307	1,193
Subscriptions	16,620	16,281	339
Miscellaneous	500	-	500
Total cable	<u>22,105</u>	<u>44,172</u>	<u>(22,067)</u>
Water and sewer:			
Salaries and benefits	54,260	42,333	11,927
Outside services	3,000	-	3,000
Travel and per diem	1,500	-	1,500
Parts and supplies	1,000	3,790	(2,790)
Insurance	5,700	2,099	3,601
Postage	150	-	150
Freight	500	1,420	(920)
Electricity	2,500	6,139	(3,639)
Fuel	3,000	1,135	1,865
Repairs and maintenance	15,000	1,000	14,000
Dues and fees	1,200	4,080	(2,880)
Miscellaneous	2,590	-	2,590
Total water and sewer	<u>90,400</u>	<u>61,996</u>	<u>28,404</u>
Garbage and recycling:			
Salaries and benefits	84,410	34,814	49,596
Parts and supplies	500	1,870	(1,370)
Insurance	1,500	497	1,003
Equipment	500	-	500
Freight	-	188	(188)
Electricity	-	373	(373)
Fuel	200	102	98
Repairs and maintenance	1,000	-	1,000
Total garbage and recycling	<u>88,110</u>	<u>37,844</u>	<u>50,266</u>

(Continued)

**CITY OF AKUTAN**  
General Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Apartment building:			
Salaries and benefits	\$ -	501	(501)
Parts and supplies	250	2,411	(2,161)
Freight	-	1,379	(1,379)
Insurance	2,900	1,338	1,562
Fuel	500	247	253
Repairs and maintenance	1,000	-	1,000
Total apartment building	<u>4,650</u>	<u>5,876</u>	<u>(1,226)</u>
 Total public works	 <u>509,025</u>	 <u>289,385</u>	 <u>219,640</u>
 Port authority:			
Harbor:			
Contractual services	10,000	8,760	1,240
Travel and per diem	3,000	2,483	517
Dues and fees	150	674	(524)
Miscellaneous	1,100	138	962
Total harbor	<u>14,250</u>	<u>12,055</u>	<u>2,195</u>
 Skiff moorage:			
Salaries and benefits	-	562	(562)
Supplies	-	21	(21)
Total skiff moorage	<u>-</u>	<u>583</u>	<u>(583)</u>
 Dock and warehouse:			
Salaries and benefits	17,890	28,652	(10,762)
Parts and supplies	-	1,254	(1,254)
Insurance	11,000	7,580	3,420
Electricity	1,300	9,907	(8,607)
Fuel	1,000	1,455	(455)
Repairs and maintenance	3,000	235	2,765
Miscellaneous	1,000	294	706
Total dock and warehouse	<u>35,190</u>	<u>49,377</u>	<u>(14,187)</u>

(Continued)

**CITY OF AKUTAN**  
General Fund  
Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual, continued

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Expenditures, continued:			
Airport:			
Salaries and benefits	\$ 334,533	288,219	46,314
Contractual services	3,000	-	3,000
Outside services	-	4,603	(4,603)
Travel and per diem	2,500	6,300	(3,800)
Parts and supplies	45,000	24,578	20,422
Building materials	1,000	1,799	(799)
Freight	5,000	12,373	(7,373)
Rent	15,911	15,911	-
Insurance	31,000	7,209	23,791
Telephone	36,000	8,263	27,737
Cable	1,000	4,754	(3,754)
Fuel	170,500	145,040	25,460
Equipment	-	3,005	(3,005)
Repairs and maintenance	1,000	-	1,000
Dues and fees	2,400	758	1,642
Miscellaneous	60,000	33,838	26,162
Total airport	<u>708,844</u>	<u>556,650</u>	<u>152,194</u>
Total port authority	<u>758,284</u>	<u>618,665</u>	<u>139,619</u>
Total expenditures	<u>2,971,101</u>	<u>2,443,559</u>	<u>527,542</u>
Excess of revenues over expenditures	282,533	1,132,021	849,488
Other financing sources (uses):			
Transfers in - Town Creek Capital Project Fund	15,000	388	(14,612)
Transfers out:			
Electric Enterprise Fund	(513,487)	(320,865)	192,622
Capital project funds:			
Boat Harbor Capital Project Fund	(400,000)	(356,146)	43,854
Other Capital Projects Capital Project Fund	(156,600)	(163,779)	(7,179)
Duplex New Construction Capital Project Fund	(36,946)	(15,507)	21,439
Water and Sewer Capital Project Fund	(25,000)	(25,000)	-
Total other financing uses	<u>(1,117,033)</u>	<u>(880,909)</u>	<u>236,124</u>
Net change in fund balance	<u>\$ (834,500)</u>	251,112	<u>1,085,612</u>
Beginning fund balance		<u>3,353,944</u>	
Ending fund balance		<u>\$ 3,605,056</u>	



## CITY OF AKUTAN

Fuel/Gas Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance (Deficit) - Budget and Actual  
 Year Ended June 30, 2016

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Revenues:			
Local:			
Charges for Services -			
Fuel sales	\$ 190,000	110,284	(79,716)
Expenditures:			
Current:			
Community services:			
Salaries and benefits	65,760	44,241	21,519
Outside services	10,000	-	10,000
Parts and supplies	500	566	(66)
Insurance	13,540	5,143	8,397
Utilities	1,200	1,064	136
Gasoline	15,000	24,214	(9,214)
Diesel	370,000	207,646	162,354
Freight	-	926	(926)
Miscellaneous	-	152	(152)
City fuel use	(286,000)	(142,642)	(143,358)
Total expenditures	190,000	141,310	48,690
Excess (deficiency) of revenue over (under) expenditures	\$ -	(31,026)	(31,026)
Beginning fund balance		(37,133)	
Ending fund balance		\$ (68,159)	

## CITY OF AKUTAN

Geothermal Special Revenue Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance - Budget and Actual  
 Year Ended June 30, 2016

	Final Budgeted Amount	Actual	Variance with Budget - Positive (Negative)
Revenues:			
Intergovernmental:			
Federal sources	\$ 931,000	251,895	(677,039)
State of Alaska	2,695,000	253,961	(2,443,105)
Local sources - investment income	-	74	74
Total revenues	<u>3,626,000</u>	<u>505,930</u>	<u>(3,120,070)</u>
Expenditures:			
Current:			
Public works:			
Salaries and benefits	35,000	57	34,943
Contractual services	3,769,000	502,262	3,266,738
Travel and per diem	95,000	3,691	91,309
Materials and supplies	60,000	9,762	50,238
Equipment	22,000	16,328	5,672
Miscellaneous	-	15,689	(15,689)
Total expenditures	<u>3,981,000</u>	<u>547,789</u>	<u>3,433,211</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(355,000)</u>	<u>(41,859)</u>	<u>313,141</u>
Other financing sources:			
Grant match portion	<u>355,000</u>	<u>-</u>	<u>(355,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>(41,859)</u>	<u>(41,859)</u>
Beginning fund balance		<u>555,482</u>	
Ending fund balance		<u>\$ 513,623</u>	

## CITY OF AKUTAN

Duplex Construction Capital Project Fund  
 Schedule of Revenues, Expenditures and  
 Changes in Fund Balance  
 Year Ended June 30, 2016

## Revenues:

## Intergovernmental:

State of Alaska - AHFC	\$	<u>252,453</u>
------------------------	----	----------------

## Expenditures:

## Capital outlay:

Salaries and benefits	16,547
Contractual services	225,369
Outside services	17,240
Parts and supplies	6,117
Travel and per diem	2,006
Postage and frieght	<u>681</u>
Total expenditures	<u>267,960</u>

Excess (deficiency) of revenues

over (under) expenditures	<u>(15,507)</u>
---------------------------	-----------------

Other financing sources - transfers in

<u>15,507</u>
---------------

Net change in fund balance

-

Beginning fund balance

<u>173,646</u>
----------------

Ending fund balance

\$	<u><u>173,646</u></u>
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**CITY OF AKUTAN**

Permanent Special Revenue Fund  
Schedule of Revenues, Expenditures and  
Changes in Fund Balance  
Year Ended June 30, 2016

Revenues - local- investment income	\$ <u>51,609</u>
Expenditures - current - general government - Investment fees	<u>5,032</u>
Excess of revenues over expenditures	46,577
Beginning fund balance	<u>1,349,704</u>
Ending fund balance	\$ <u><u>1,396,281</u></u>

## CITY OF AKUTAN

## Other Governmental Funds

## Combining Balance Sheet

June 30, 2016

<u>Assets</u>	Capital Project Funds				Total Other Governmental Funds
	Water and Sewer	Boat Harbor	Town Creek	Other Capital Projects	
Cash and investments	\$ 178,000	10,000	5,620	43,390	237,010
Receivables - other	-	-	-	9,539	9,539
Total assets	<u>178,000</u>	<u>10,000</u>	<u>5,620</u>	<u>52,929</u>	<u>246,549</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	-	-	-	33	33
Accrued payroll and benefits	-	-	-	3,500	3,500
Due to other funds	-	-	5,620	-	5,620
Total liabilities	<u>-</u>	<u>-</u>	<u>5,620</u>	<u>3,533</u>	<u>9,153</u>
Fund balances:					
Committed	<u>178,000</u>	<u>10,000</u>	<u>-</u>	<u>49,396</u>	<u>237,396</u>
Total liabilities and fund balances	<u>\$ 178,000</u>	<u>10,000</u>	<u>5,620</u>	<u>52,929</u>	<u>246,549</u>

## CITY OF AKUTAN

Other Governmental Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2016

	Capital Project Funds				
	Water and Sewer	Boat Harbor	Town Creek	Other Capital Projects	Total Other Governmental Funds
Revenues:					
Intergovernmental:					
State of Alaska	\$ -	18,320	-	-	18,320
Local sources - investment income	-	-	11	631	642
Total revenues	-	18,320	11	631	18,962
Expenditures:					
Current					
Public works	103,000	-	-	-	103,000
Capital outlay	-	374,466	15,772	272,275	662,513
Total expenditures	103,000	374,466	15,772	272,275	765,513
Excess (deficiency) of revenues over (under) expenditures	(103,000)	(356,146)	(15,761)	(271,644)	(746,551)
Other financing sources (uses):					
Insurance proceeds	-	-	-	72,762	72,762
Transfer in	25,000	356,146	-	163,779	544,925
Transfer out	-	-	(388)	-	(388)
Net other financing sources (uses)	25,000	356,146	(388)	236,541	617,299
Net change in fund balances	(78,000)	-	(16,149)	(35,103)	(129,252)
Beginning fund balances	256,000	10,000	16,149	84,499	366,648
Ending fund balances	\$ 178,000	10,000	-	49,396	237,396

## CITY OF AKUTAN

Schedule of State Financial Assistance  
Year Ended June 30, 2016

<u>State Grant Title</u>	<u>Grant Number</u>	<u>Total Grant Award</u>	<u>State Share of Expenditures</u>
<b>Department of Commerce, Community and Economic Development</b>			
Akutan Harbor Road Project, the Airport Access Project, and Akutan Harbor Facility Development Improvements	14-RR-066	\$ 3,100,000	18,320
* Community Revenue Sharing	2016	139,443	139,443
* Shared Fisheries Business and Landing Tax	2016	173,049	173,049
<b>Total Department of Commerce, Community and Economic Development</b>		<u>3,412,492</u>	<u>330,812</u>
<b>Alaska Energy Authority</b>			
* Akutan Geothermal Development Project	7040050	<u>2,695,000</u>	<u>253,961</u>
<b>Alaska Housing Finance Corporation</b>			
* New Construction / Health, VPSO Duplex	THP-15-CAK-1	<u>694,587</u>	<u>252,453</u>
<b>Department of Revenue</b>			
* Fisheries Business Tax Sharing	2016	<u>943,814</u>	<u>943,814</u>
<b>Department of Administration</b>			
PERS Relief	2016	<u>47,005</u>	<u>47,005</u>
<b>Total State Financial Assistance</b>		<u>\$ 7,792,898</u>	<u>1,828,045</u>

See accompanying notes to the Schedule of State Financial Assistance.

## **CITY OF AKUTAN**

### **Notes to Schedule of State Financial Assistance**

Year ended June 30, 2016

#### **Note 1. Basis of Presentation**

The accompanying schedule of state financial assistance (the "Schedule") includes the state award activity of City of Akutan under programs of the State of Alaska for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Because the Schedule presents only a selected portion of the operations of City of Akutan, it is not intended to and does not present the basic financial statements of City of Akutan.

#### **Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the City's basic financial statements.

#### **Note 3. Subrecipients**

No state funds were passed through to Subrecipients.

#### **Note 4. Major Programs**

\* denotes a major program for compliance audit purposes.



# **COMPLIANCE REPORTS**

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

**Independent Auditor's Report**

Members of the City Council  
City of Akutan, Alaska  
Akutan, Alaska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Akutan, Alaska, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Akutan's basic financial statements, and have issued our report thereon dated September 22, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Akutan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Akutan, Alaska's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Akutan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2016-002, to be a material weakness.

Members of the City Council  
City of Akutan, Alaska

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2016-001 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Akutan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Akutan, Alaska's Response to Findings**

The City of Akutan's responses to the finding identified in our audit are described in the schedule of findings and questioned costs and corrective action plan. The City of Akutan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Akutan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Akutan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anchorage, Alaska  
September 22, 2017

**Report on Compliance For Each Major State Program and on Internal Control over Compliance  
Required by the State of Alaska Audit Guide and Compliance Supplement for State Single Audits**

**Independent Auditor's Report**

Members of the City Council  
City of Akutan, Alaska  
Akutan, Alaska

**Report on Compliance for Each Major State Program**

We have audited City of Akutan's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of City of Akutan's major state programs for the year ended June 30, 2016. City of Akutan's major state programs are identified in the accompanying schedule of state financial assistance.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of City of Akutan's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about City of Akutan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of City of Akutan's compliance.

Members of the City Council  
City of Akutan, Alaska

### **Basis for Qualified Opinion on Each Major State Program**

As described in the accompanying schedule of findings and questioned costs, City of Akutan did not comply with the requirements regarding reporting for each major state program as described in Finding 2016-003. Compliance with such requirements is necessary, in our opinion, for City of Akutan to comply with the requirements applicable to each program.

### **Qualified Opinion on Each Major State Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, City of Akutan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major state program for the year ended June 30, 2016.

### **Other Matters**

City of Akutan's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of Akutan's response was not subjected to the audited procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of City of Akutan, Alaska is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Akutan's 's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Akutan's 's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

Members of the City Council  
City of Akutan, Alaska

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2016-003 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

City of Akutan's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. City of Akutan's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska  
September 22, 2017

**CITY OF AKUTAN**

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2016**

***Section I – Summary of Auditor's Results***

***Financial Statements***

Type of auditor's report issued:

Unmodified

Is going concern emphasis-of-matter paragraph included  
in the audit report?

\_\_\_\_ Yes X No

Internal control over financial reporting:

Material weakness(es) identified?

X Yes \_\_\_\_ No

Significant deficiency(ies) identified?

X Yes \_\_\_\_ None noted

Noncompliance material to financial statements noted?

\_\_\_\_ Yes X No

***State Financial Assistance***

Internal control over major programs:

Material weakness(es) identified?

X Yes \_\_\_\_ No

Significant deficiency(ies) identified?

\_\_\_\_ Yes X None reported

Type of auditor's report issued on compliance  
for major programs:

Qualified

Dollar threshold used to distinguish  
a state major program:

\$ 75,000

## CITY OF AKUTAN

### Schedule of Findings and Questioned Costs, Continued

#### ***Section II – Financial Statement Findings***

##### **Finding 2016-001**

##### **Significant Deficiency**

##### **Internal Control Over Payroll**

<b>Condition:</b>	The payroll system of the City lacks internal controls necessary to ensure accurate financial reporting. Multiple transactions tested were not accurately supported by the payroll documentation (e.g. timesheet) or lacked the necessary payroll documentation (employee contracts, personnel action form with pay rate authorization, payroll deduction authorization).
<b>Criteria:</b>	Internal control procedures should be in place to ensure the payroll accounting system is maintained. Per City's policies, payroll transactions should be supported by approved timesheets, payroll rates and deductions should be documented in personnel files.
<b>Context:</b>	We attempted to test 40 transactions in order to assess control risk at a low level. We encountered internal control deficiencies and were unable to complete our testing to rely on internal controls over the payroll system.
<b>Cause:</b>	Lack of internal control over payroll system and employee personnel file retention.
<b>Effect:</b>	Lack of internal controls over payroll can lead to misstatements in the financial statements.
<b>Recommendation:</b>	The City should strengthen internal controls related to the payroll accounting system. Transactions should be double checked by supervisors to amount and coding, timesheets should be totaled and signed by both employee and supervisor. Personnel files should be periodically reviewed to ensure that all employees have adequate payroll documentation with their current approved pay rates and deductions.
<b>Management's Response:</b>	Management concurs with finding. See corrective action plan.



## CITY OF AKUTAN

### Schedule of Findings and Questioned Costs, Continued

**Finding 2016-002**  
**Material Weakness**

**Internal Control Over Cash Receipts**

<b>Condition:</b>	The cash receipts system of the City lacks internal controls necessary to ensure accurate financial reporting. During testing of cash receipts, we came across several transactions with no supporting documentation or supporting documentation that did not agree to the amounts being deposited. We noted lack of segregation of duties over cash collection and recording of transactions to the general ledger.
<b>Criteria:</b>	Proper internal control procedures require that procedures be in place to minimize the risk of error or fraud related to cash receipts. Additionally, the City's accounting policies require that all cash receipts are accompanied by documentation supporting the individual receipts.
<b>Context:</b>	During testing of cash receipts, we found multiple deposits for which cash count sheets did not agree to the amounts being deposited and one deposit with no cash count sheet supporting the amount deposited.
<b>Cause:</b>	Lack of internal control over cash receipts.
<b>Effect:</b>	Lack of internal controls over cash receipts can result in the financial statements potentially being materially misstated.
<b>Recommendation:</b>	We recommend the City to establish an internal control system segregating the receipt, custody and recording duties related to cash receipt. Procedures should be established to ensure all cash receipt transactions have supporting documentation for the individual receipts, traceable to bank deposits and the general ledger.
<b>Management's Response:</b>	Management concurs with finding. See corrective action plan.

## CITY OF AKUTAN

### Schedule of Findings and Questioned Costs, Continued

#### ***Section III – State Award Findings and Questioned Costs***

##### **Finding 2016-003**

##### **Late Reporting**

##### **Material Weakness/**

##### **Material Non-compliance**

<b>Condition:</b>	The City did not adhere to the State of Alaska's requirement to submit their audited financial statements and State compliance report within nine months of their fiscal year end.
<b>Criteria:</b>	State of Alaska requires all State Single Audits to be completed and submitted to the State of Alaska within the earlier of nine months after their fiscal year end, or 30 days after the completion of the audit report.
<b>Context:</b>	The City did not engage an audit firm to perform their fiscal year 2016 audit until approximately ten months after their fiscal year end.
<b>Cause:</b>	Lack of internal control over reporting.
<b>Effect:</b>	City of Akutan is not in compliance with State of Alaska Single Audit requirements.
<b>Recommendation:</b>	The City should retain an audit firm shortly after their fiscal year end to ensure adequate time to complete the audit within the nine month time period.
<b>Management's Response:</b>	Management concurs with finding. See corrective action plan.

## CITY OF AKUTAN

### Schedule of Findings and Questioned Costs, Continued

#### ***Section III – Summary of Prior Year Audit Findings***

##### **Financial Statement Findings**

###### **Finding 2015-001**

###### **Significant Deficiency**

###### **Internal Control Over Payroll**

###### **Condition:**

The payroll system of the City lacks internal controls necessary to ensure accurate financial reporting. Multiple transactions tested were not accurately supported by the payroll documentation (e.g. timesheet), or lacked the necessary payroll documentation (employee contracts, personnel action form with pay rate authorization, payroll deduction authorization).

###### **Status/**

###### **Management's Response:**

This finding has been repeated as Finding 2016-001.

###### **Finding 2015-002**

###### **Material Weakness**

###### **Internal Control Over Cash Receipts**

###### **Condition:**

The cash receipts system of the City lacks internal controls necessary to ensure accurate financial reporting. During testing of cash receipts, we came across several transactions with no supporting documentation and were not able to trace the transactions to the bank deposits. We noted lack of segregation of duties over cash collection and recording of transactions to the general ledger.

###### **Status/**

###### **Management's Response:**

This finding has been repeated as Finding 2016-002.

###### **Finding 2015-003**

###### **Material Weakness**

###### **Internal Controls Over Fuel Inventory**

###### **Condition:**

The City fuel inventory at the beginning of the year was understated by \$69,570 which required a prior period adjustment to the beginning fund balance.

###### **Status/**

###### **Management's Response:**

This finding has been resolved.

**CITY OF AKUTAN**

Schedule of Findings and Questioned Costs, Continued

**Finding 2015-004**  
**Material Weakness**

**Internal Controls Over Pension Liabilities**

**Condition:**

The City PERS liabilities at the beginning of the year were understated by \$63,686 which required a prior period adjustment to the beginning fund balance.

**Status/**

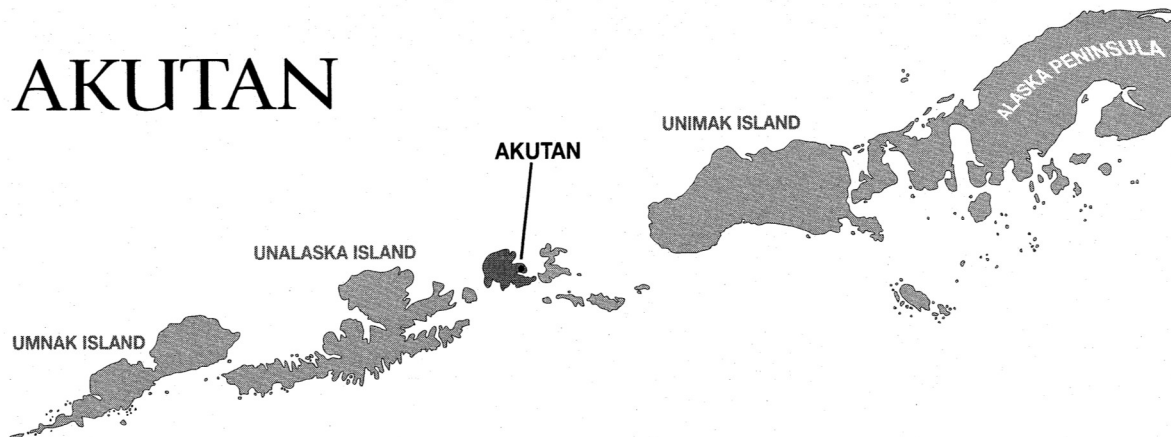
**Management's Response:** This finding has been resolved.

# CITY OF AKUTAN

Anchorage Office

3380 C Street, Suite 205  
Anchorage, Alaska 99503-3952

Phone (907) 274-7565  
Fax (907) 274-1813



## Corrective Action Plan

June 30, 2016

### Financial Statement Findings

#### Finding 2016-001

#### Internal Control Over Payroll

##### **Name of Contact:**

Bobby Jo Kramer, Finance Director

##### **Corrective Action Plan:**

The City has been implementing standard office practices and procedures over payroll processing and maintaining personnel files. The City has been training two employees to processes payroll transactions to ensure payroll is completed if one is absent. The City will continue to review all personnel files to ensure that each personnel file has current W-4, 1-9, PAR (Personnel Action Recommendation) forms, deductions forms for utilities, etc. for each employee. During the past fiscal year, timesheets were completed for employees. The City Administrator participated in human resource training during FY16 and is working closely with the City Clerk to better maintain payroll record keeping. The office staff will be more diligent with ensuring all paychecks are supported with approved timesheets and payroll files are up to date.

**Proposed Completion Date:** September 30, 2016.

#### Finding 2016-002

#### Internal Control Over Cash Receipts

##### **Name of Contact:**

Bobby Jo Kramer, Finance Director

##### **Corrective Action Plan:**

The City has been implementing standard office practices and procedures over cash receipts. Beginning December 16, 2015, the City began using a Point of Sale (POS) system in Akutan and Akun to account for cash receipts. The POS system automatically records the transactions into Quickbooks. The safe and cash drawer are counted each night and compared with the POS report. In addition, the safe and Keybank account are reconciled monthly by the contract accountant.

**Proposed Completion Date:** November 30, 2016.

## CITY OF AKUTAN

### Corrective Action Plan, Continued

#### **State Award Findings**

##### **Finding 2016-003**

##### **Late Reporting**

**Name of Contact:** Bobby Jo Kramer, Finance Director

**Corrective Action Plan:** The City is aware that the reporting package must be submitted within nine months of the fiscal year-end. Due to scheduling conflicts, the City was unable to meet the deadline. The City believes it will be able to meet this deadline for the June 30, 2017 fiscal year.

**Proposed Completion Date:** December 31, 2017.